



### I. Purpose

- A. Economic development incentives are necessary because of the inherent competition between localities for new businesses and jobs and therefore shall be used prudently on projects where incentives can make a difference to either remain or locate in Sedgwick County. The governing bodies of both the City and County have adopted this policy with the recognition that certain provisions are applicable to only one and not both jurisdictions. The intent of these guidelines is to complement any incentive program that may be adopted by other municipalities within Sedgwick County or by the State of Kansas.
- B. The objective of offering economic development incentives to businesses demonstrating long-term commitment to the community shall be to encourage the expansion of commerce by:
  - 1. Creating and retaining quality jobs;
  - 2. Broadening and diversifying the tax base;
  - 3. Encouraging capital investments;
  - 4. Increasing the region's global competitiveness;
  - 5. Promoting the growth and welfare of the City of Wichita and Sedgwick County.
- C. Economic development incentives available from the City of Wichita and Sedgwick County include (but are not limited to) industrial revenue bonds (IRBs), property tax abatements, sales tax exemptions, forgivable loans and infrastructure improvements. The City Council and/or Board of County Commissioners may determine the amount, terms and conditions of property tax abatements and forgivable loans based on matrices that equate recommended incentive levels with job creation, wage levels and capital investments.
- D. Each request for incentives will be evaluated on an individual basis. Changing economic conditions and availability of funds may cause the City of Wichita and Sedgwick County to modify, amend, or discontinue any economic development incentive program. Should an incentive program be discontinued, the City Council and Board of County Commissioners will honor any incentive committed to before the discontinuance of the program.

### II. Eligibility

- A. Business Activity: To be eligible for any public incentives, a business must be engaged in one or more of the following activities:
  - 1. *Manufacturing*. Determined by appropriate NAICS codes
  - 2. *Service Sector*. Majority of revenues must be derived from transactions originating outside the State of Kansas.



## Sedgwick County/City of Wichita Economic Development Policy

---



3. *Research and Development.* The conducting of research, development or testing for aviation, scientific, medical, food product or industrial purposes.
  4. *Warehousing and Distribution.* Majority of goods stored/shipped must be destined for end-users located outside the Wichita MSA.
  5. *Corporate Headquarters.* May include "back office" operations and customer service activities, but shall not include out-bound call centers. Majority of revenues must be derived from transactions originating outside the Wichita MSA.
  6. *Transportation.* Freight or passenger transportation services. Majority of revenue must be derived from interstate commerce/travel.
  7. *Tourism.* Attractions considered likely to attract at least 30% of attendees from outside the Wichita MSA.
  8. *Medical Services.* Regional medical centers and specialty hospitals considered likely to attract at least 30% of patients from outside the Wichita MSA.
  9. *Speculative Industrial Buildings.* Developer built facilities to be leased to one or more tenants operating in the areas of manufacturing, research and development or warehousing and distribution.
- B. **Value Added Job:** A value added job produces goods and/or services that are sold predominately outside of the MSA. Importing wealth into the community through value added jobs grows the local economy. Whereas non-value added jobs typically re-circulate wealth within the community.
- C. **Wage and Salary Criteria:** A business may be considered for public incentives only if the average wages paid to its employees are equal to or greater than the average wages for that type of business as determined by the most appropriate available NAICS code within the Wichita MSA or greater than the average wage for all jobs in the Wichita MSA when wages are calculated excluding the wages for the transportation equipment manufacturing sector (NAICS sector 336). In cases where jobs do not meet the wage requirements, number of jobs may be considered. In addition to meeting wage requirements, jobs created must include health care benefits. If health care benefits are not offered, wages must be 120% of the average wage as stated above.
- D. **Return on Public Investment (ROI):** All requests by businesses for local incentives will have a cost/benefit analysis completed prior to consideration by the appropriate governing body. A designated agent on behalf of the City and County will conduct the cost/benefit analyses and any fees associated with this application are the responsibility of the applicant. The ratio of public benefits to public costs, each on a present value basis, should not be less than 1.3 to one



## Sedgwick County/City of Wichita Economic Development Policy



for both the general and debt service funds for the City of Wichita; for Sedgwick County should not be less than 1.3 overall.

If the ratio of present value of benefits vs. cost is less than 1.3:1; two or more of the following mitigating factors may be cause for approval. Regardless of mitigating factors, the ratio cannot be less than 1.0:1.

1. At least \$50,000,000 of capital investment is in real property that will be taxable following the expiration of any tax abatements.
  2. Creation or retention of at least 500 jobs with wages at least 110% of average wage for all jobs in the Wichita MSA when average wages are calculated excluding the wages for the transportation equipment manufacturing sector (NAICS sector 336).
  3. The present value of net benefits resulting from the cost/benefit analysis calculation is at least \$500,000.
- E. In addition to the above criteria, the City Council and/or County Commission may consider the following information when deciding whether to approve an incentive.
- The project is for a target industry as determined by the most recent strategic/cluster analysis for Economic Development for Sedgwick County/Wichita;
  - The size of the project based upon private investment in the site development, plant facilities and infrastructure;
  - The total number of jobs, wages, benefits and types of jobs created;
  - The relationship between jobs development and total investment;
  - Potential for future expansion and increased employment;
  - Potential for retention of existing employment where it can be demonstrated that without incentives the jobs may be moved away from the area or eliminated, as evidenced by a written statement from the company.
  - Potential for diversification of the regional economy;
  - Potential for inclusion of disadvantaged minority or women-owned businesses as contractors, suppliers, etc.
  - Project specific issues that impact upon local infrastructure responsibilities of the City and/or County;
  - Project specific incentives that may be pursued to stimulate other development areas that the City and County may deem of significant benefit to the community;
  - Economic development incentives from other local governments and/or the State;
  - Financial impact and budget ramifications.
- F. The City and County may conduct legal and/or financial research regarding the company as part of eligibility determination.



## Sedgwick County/City of Wichita Economic Development Policy



- G. Economic development incentives may not be transferred or otherwise conveyed to another party without approval of the City Council and/or Board of County Commissioners.

### **III. Implementation**

- A. All Economic Development Incentives will be formalized in a written agreement between the City of Wichita and/or Sedgwick County and the recipient company. The recipient company will be required to meet the following performance criteria:
1. Jobs created and payroll commitments
  2. Capital investment in real property
  3. Compliance with wage requirements
  4. Compliance with all applicable governmental laws, rules and regulations
  5. Compliance with any conditions imposed by the Economic Development Incentive Agreement.

### **IV. Incentives**

The City and County will only consider giving incentives to companies relocating from neighboring communities when existing local conditions preclude continued operations in that community.

When a project includes tax abatements/exemptions, forgivable loans and infrastructure improvements, the private/public funding ratio of overall project costs must be 2 to 1. The present value of property and sales tax exemptions will be considered public funding.

#### **A. Property Tax Abatement**

1. The City of Wichita and Sedgwick County are authorized under state law to grant tax abatements on private business property either in connection with the issuance of IRBs or under Article 11 of the state constitution that enables economic development exemptions (EDX) for certain types of businesses. While IRB abatements may be granted for all types of business included in the list of eligible businesses, EDX abatements are limited to expanding manufacturing, research and development and warehouse and distribution businesses that create or retain jobs.
2. Property taxes may be abated for new improvements to real property and for newly acquired items of personal property not otherwise exempt under Kansas law, used by an eligible business in connection with an expansion or relocation of the business' operations in Wichita and/or Sedgwick County. Land and existing buildings are not generally eligible for property tax abatement. Existing buildings may only be considered for tax abatement if the building has been vacant for at least two years and is acquired by a party



## Sedgwick County/City of Wichita Economic Development Policy



not related to the previous owner. Exceptions may be made for buildings used by target industries as determined by the most recent economic development strategic/cluster analysis for Sedgwick County/Wichita and in cases where reuse of the building within two years is deemed unlikely.

3. The term of tax abatement on real taxable property improvements under this Policy shall be an initial term of five years, plus an additional five years subject to review and approval of the City Council or Board of County Commissioners at the end of the initial term. Tax abatement on eligible items of personal property shall be limited to a term of five years.
4. The recommended percentage of property taxes to be abated shall be based on new job creation and capital investment by the eligible business, as follows:

Job Creation: For the purpose of determining the recommended percentage of tax abatement, the number of new full-time equivalent (FTE) jobs created by the project may be adjusted by a factor based on the relationship between the wages to be paid for the new jobs and the average wage for all jobs in the Wichita MSA. For example, if the area average wage is \$40,000 and the average wage for the created jobs is \$50,000, the factor for adjusting the number of created FTE jobs would be 125%. If the actual number of FTE jobs created is 60, the adjusted number of new FTE jobs used to determine the recommended abatement would be 75. For the purpose of this Policy, FTE jobs are defined as full-time employees who are paid to work at least 2,080 hours per year, or part-time or temporary employees consolidated to obtain the full-time equivalent of 2,080 hours per year.

The amount of recommended tax abatement based solely on FTE job creation is based on a sliding scale that allows smaller projects to benefit. A property tax abatement may be recommended for each new FTE job as follows: 3% for the first five new FTE jobs, 2% for six to 10 new FTE jobs, 1.5% for 11 to 20 new FTE jobs, 1% for 21 to 50 new FTE jobs and 0.6% for each new FTE job in excess of 50, up to a maximum tax abatement for job creation of 100%.

- a. Capital Investment: A property tax abatement may be recommended for each \$50,000 of private investment in plant and equipment as follows: Between \$50,000 and \$500,000 – 1.0%; between \$500,000 and \$1 million – 0.75%; between \$1 million and \$2 million – 0.5%; between \$2 million and \$5 million – 0.25%; above \$5 million – 0.10%. The maximum recommended tax abatement for capital investment is 100%.



## Sedgwick County/City of Wichita Economic Development Policy

---



- b. Location Premium: Businesses in the City of Wichita shall be encouraged to locate and/or expand within special redevelopment areas of the City. To foster such action, businesses may receive additional recommended tax abatement equal to 20% for locating into special redevelopment areas, as may be determined from time-to-time by separate action of the City Council.
5. Payments-In-Lieu-of-Taxes (PILOTs): Any business receiving a tax abatement may be required to make payments in lieu of taxes equal to the amount of property tax abated. Said PILOT payments shall be payable to the Sedgwick County Treasurer for proportional distribution to all local taxing jurisdictions which levy taxes on the abated property. A business may also be required to make PILOT payments at any time in the event of non-compliance with the conditions imposed by the economic development incentive agreement, as an alternative to complete cancellation of the tax abatement.
6. Service Fee Payments: The City of Wichita and Sedgwick County reserve the right to impose on any business receiving tax abatements the payment of service fees through the provisions of the economic development incentive agreements for services provided by the applicable Unified School District and the Sedgwick County Fire District. The amount of the service fee shall be based on the tax rate of the applicable Unified School District and/or the Sedgwick County Fire District, and any service fees thus paid shall be remitted to such School and/or Fire District.
7. Speculative Industrial Buildings: property and sales tax exemptions are the only incentives which may be considered for Speculative Industrial Buildings. Applicants for this incentive will be considered through December 31, 2014 at which time the incentive will no longer be offered, unless this incentive is extended by the City Council or Board of County Commissioners. Any exemption approved by the Governing Bodies prior to December 31, 2014 will be granted the exemption term as stated in paragraph IV.A.3. The recommended percentage of property taxes to be abated for Speculative Industrial Buildings shall be based on the total capital investment and job creation. The combined total exemption shall not exceed the maximum exemption based on building size. The criteria for consideration of exemption is as follows:
  - a. Building Size: A property tax abatement may be recommended for buildings 50,000 square feet and larger. 50,000 square foot buildings will qualify for a maximum 50% tax abatement and an additional 10% tax abatement will be added for each additional 10,000 square feet of building (ex. 60,000 square feet = 60 %, 70,000 square feet = 70%, etc.). Minimum ceiling clear height must be 28 feet.



- b. Job Creation: For the purpose of determining the recommended percentage of tax abatement, consideration will be given to the number of net new full-time equivalent (FTE) jobs on the sliding scale described above in paragraph 4.a, but in no event will the maximum percentage of abated tax be greater than that provided in paragraph 7.a. The average annual wages paid for all net new jobs for each eligible business shall be equal to, or greater than, the NAICS code for each tenant company; or equal to, or greater than, the average annual wages of all NAICS codes in the market, minus NAICS 336.
- c. The developer must finance the building with IRBs to qualify for any tax abatement.
- d. All subleases require City Council or Board of County Commissioners approval.
- e. The total term of the tax abatement shall not exceed 10 years.
- f. Full occupancy must be reached within five years of completion of the building or the tax abatement will be reduced proportionally.
- g. At the five year compliance review, the property tax abatement will be terminated if jobs created by Eligible Businesses are less than those projected at the time of approval. A cost/benefit analysis will be completed at the time of the compliance review and will require a ratio of benefits to costs of 1.3 to 1.0 based upon capital investment and net new jobs created by the project.

***B. Sales Tax Exemptions***

Sales tax exemptions may be provided for purchases financed by Industrial Revenue Bonds (IRBs) and are subject to approval by the City Council or the Board of County Commissioners.

***C. Cash Incentives***

May be available to address extraordinary situations and are subject to budget constraints of the City of Wichita and Sedgwick County.

1. Forgivable loans are loans which may be forgiven over time based on achieving job creation and capital investment commitments.
2. Grants may be made as an alternative to forgivable loans with similar terms and conditions.
3. The term of the forgivable loan or grant shall not be less than the extent of the job creation commitment contained in the agreement.



# Sedgwick County/City of Wichita Economic Development Policy



4. Default of forgivable loans and grants will be subject to interest payment penalties if terms are not met.

## **D. Infrastructure Improvements**

Infrastructure improvements to public infrastructures as an economic development incentive are determined on an individual basis.

## **E. Other Incentives**

New incentive programs may be developed in the future. Such programs will be subject to this Policy.

## **V. Compliance**

- A. Annual on-site reviews will be conducted by City and/or County Economic Development staff to establish compliance with the written agreement between the City of Wichita and/or Sedgwick County and the recipient company.
- B. Tax abatements on real property will be reviewed after an initial term of five years; continued abatement is subject to review and approval by the City Council or Board of County Commissioners at the end of the initial term. The review will be based on the company's performance in meeting the terms and conditions in the written agreement.
- C. The City of Wichita and Sedgwick County may amend an incentive agreement to reduce the recipient's obligations regarding employment levels, wage requirements, or non compliance penalties in the event of a federally-declared disaster or economic downturn.

An economic downturn is evidenced by a significant decline (at least a 5 point decline) in the WSU Current Economic Conditions Index from the point at which the incentive agreement was signed.

In such event, the economic development incentives may be continued if a majority of compliance criteria are met, including capital investments, actual ROI, and temporarily achieving job creation commitments.

- D. Whenever practicable, the City and County will include "clawback" provisions (relating to repayment or cessation of incentives) in all incentive agreements, and the City or County may exercise such provisions when the terms of the incentive agreements have not been met. Such clawback provisions will include payment-in-lieu-of-taxes equal to the dollar value of the last ten years of abated property taxes if a business moves its operations to another city or county and ceases its operations in Wichita or Sedgwick County within five years of receiving such abatements. For each year the company stays in Wichita/Sedgwick County after the expiration of the tax abatement, the amount of repayment shall be reduced by 20%. For example, if a company leaves Wichita/Sedgwick County in the first



## Sedgwick County/City of Wichita Economic Development Policy

---



year after the expiration of the tax abatement, it shall repay 100% of the last ten years of property taxes abated. If the company leaves in year two, it shall repay 80%, etc.

DRAFT